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**BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objectives for Class A Water Utilities.

Investigation 07-01-022  
(Filed January 11, 2007)

In the Matter of the Application of Golden State Water Company (U 133 E) for Authority to Implement Changes in Ratesetting Mechanisms and Reallocation of Rates.

Application 06-09-006  
(Filed September 6, 2006)

Application of California Water Service Company (U 60 W), a California Corporation, requesting an order from the California Public Utilities Commission Authorizing Applicant to Establish a Water Revenue Balancing Account, a Conservation Memorandum Account, and Implement Increasing Block Rates.

Application 06-10-026  
(Filed October 23, 2006)

Application of Park Water Company (U 314 W) for Authority to Implement a Water Revenue Adjustment Mechanism, Increasing Block Rate Design and a Conservation Memorandum Account.

Application 06-11-009  
(Filed November 20, 2006)

Application of Suburban Water Systems (U 339 W) for Authorization to Implement a Low Income Assistance Program, an Increasing Block Rate Design, and a Water Revenue Adjustment Mechanism.

Application 06-11-010  
(Filed November 22, 2006)

Application of San Jose Water Company (U 168 W) for an Order Approving its Proposal to Implement the Objectives of the Water Action Plan.

Application 07-03-019  
(Filed March 19, 2007)

**ADMINISTRATIVE LAW JUDGE'S RULING CONSOLIDATING APPLICATION  
OF SAN JOSE WATER COMPANY, MODIFYING SCHEDULE AND  
ADDRESSING PHASE I HEARINGS**

This ruling consolidates the Water Action Plan application of San Jose Water Company (San Jose), establishes Phases 1A and 1B to consider rate-related conservation measures, sets hearings for the return on equity adjustment in Phase 1B and grants with modification the motion of The Utility Reform Network (TURN) and California Water Service Company (CalWater) to modify the schedule.

**Consolidation of San Jose's Application**

This Order Instituting Investigation (OII) was opened to address policies to achieve the Commission's conservation objectives for Class A water utilities and consolidated four applications to adopt increasing block rate designs, water revenue adjustment mechanisms (WRAMs), and conservation memorandum accounts. In the OII, the Commission stated subsequent applications raising similar issues might be consolidated. San Jose filed Application 07-03-019 to request increasing block rates for residential consumers, a WRAM, a full cost balancing account, and the expansion of its existing water quality memorandum account in order to implement the Commission's Water Action Plan.

The Division of Ratepayer Advocates (DRA) filed a protest to San Jose's application and requested consolidation of the application with this OII. San Jose is a respondent to this OII, and consolidation of its application is the most efficient means of addressing the conservation rate design proposals it raises. San Jose's proposal should be addressed in the rate-related conservation phase of this proceeding.

## **Phases 1A and 1B**

The March 8, 2007 scoping memo divided this proceeding into two phases. Phase 1 considers rate-related conservation measures and Phase 2 will consider non-rate design conservation measures. Settlement agreements have been filed for CalWater and Suburban Water Systems' (Suburban) conservation rate design proposals.<sup>1</sup> Settlement negotiations continue for Park Water Company's (Park) proposals. TURN and CalWater have requested the opportunity to file an amended settlement agreement.

The conservation rate design proposals for CalWater, Suburban and Park will be evaluated in Phase 1A with a partially modified schedule. The schedule sets a new date for filing any full or partial settlement agreement on Park's rate-related conservation issues.<sup>2</sup> Phase 1A hearings will address contested issues raised by the parties on the CalWater and Suburban settlement agreements. Testimony also will address either Park's application or contested issues on any Park settlement agreement.

Phase 1B will consider San Jose's application and Golden State Water Company's (GSWC) amended application. The Phase 1B schedule is set forth below; a second round of testimony and hearings is scheduled to permit the parties to undertake settlement negotiations in advance of those deadlines. Phase 1B also will address whether CalWater, Suburban, Park, GSWC or

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<sup>1</sup> The comment schedule for the CalWater/ DRA settlement was taken off calendar by e-mail ruling on May 18, 2007.

<sup>2</sup> Should the parties reach a settlement agreement after the filing deadline, they must either file an all-party settlement agreement or get the other parties' concurrence to adhere to the schedule for filing comments.

San Jose's return on equity should be adjusted if a WRAM is adopted. We defer hearings on the adjustment to Phase 1B, because it permits one round of hearings on the adjustment and it efficiently allocates resources in light of the need for more time to finalize settlement negotiations.

In addressing whether a return on equity adjustment is warranted, the parties should address the following issues in their testimony:

- What measures of risk should be considered in setting a return on equity and in determining whether these risks have been altered when a WRAM is applied: operating (e.g. fixed assets relative to earnings; earnings variance), financial (e.g. level of debt), and business risks (e.g. economies of scale; water demand and supply; elasticity of demand)? Other types of risk?
- What impact(s) could adopting a return on equity adjustment have on the Commission's conservation objectives for Class A water utilities?
- Should any return on equity adjustment be made if the adopted WRAM recovers all fixed costs affected by the proposed conservation rate design? Should the Commission order a return on equity adjustment if all fixed costs are not recovered through the WRAM?
- Should the adoption of a modified cost balancing account affect whether a return on equity adjustment is adopted?
- Should company-specific factors be considered in weighing whether a return on equity adjustment should be adopted? What company-specific factors should be considered? What methods (e.g. Discounted Cash Flow (DCF); Capital Asset Pricing Model (CAPM); Risk Premium; Multiple Regression; other) for estimating any potential impact of a WRAM on the required return on equity should be utilized *prior* to instituting the WRAM?
- What methods (e.g. DCF; CAPM; Risk Premium; Multiple Regression; other) for estimating any potential impact of a WRAM on the required, and achieved, return on equity should be utilized *after* instituting the WRAM?
- How much historical data (e.g. 1 year? 3 years? 5 years?) would be required for an accurate estimate of this potential impact?

- Should publicly-traded companies with similar operating, financial, and business risks be utilized for these calculations?
- Is the experience of non-water utilities germane?
- Should any return on equity adjustment be interim subject to reconsideration in the separate cost of capital proceeding?

This revision to the Phase 1 schedule anticipates a proposed decision will issue at the conclusion of Phase 1A. If the proposed WRAMs are adopted in that decision, they will not be amortized pending consideration of whether a return on equity adjustment is required. The amortization would be trued up to account for any delay.

### **Motion to Modify Schedule**

CalWater and TURN filed a motion to modify the schedule in order to permit negotiations to resolve TURN's objections to the CalWater/DRA settlement agreement. DRA supports the motion and other parties interested in the settlement's WRAM and rate design issues do not object to the extension. Since the hearings will proceed as planned if an amended settlement agreement is filed, the motion is granted. The proposed hearing schedule is modified as set forth below.

### **Timetable**

Pursuant to the OIL, the undersigned assigned Commissioner and/or the ALJ may revise the schedule. The schedule is revised as follows:

**Phase 1A: Suburban**

May 23, 2007	Comments on Suburban/DRA settlement agreement
June 7, 2007	Reply comments on Suburban/DRA settlement agreement
June 29, 2007	Settling parties' testimony on Suburban's contested issues
July 20, 2007	Contesting parties' testimony on contested issues for Suburban settlement
July 30-August 3, 2007	Hearings - Commission Court Room, State Office Building, 505 Van Ness Avenue, San Francisco, CA 94102, July 30, 2007, 10:00 a.m., and July 31 - August 3, 2007, 9:30 a.m.
TBD	Briefs
TBD	Mailing of proposed decision, first possible Commission consideration of proposed decision

**Phase 1A: CalWater, Park**

May 30, 2007	Park settlement agreement filed
June 15, 2007	CalWater/DRA amended settlement agreement filed
June 29, 2007	Opening testimony on Park rate-related conservation measures, if no settlement filed. Opening comments on CalWater amended settlement and Park settlement, if settlement filed
July 6, 2007	Reply comments on CalWater amended settlement and Park settlement, if filed
July 13, 2007	Settling parties' testimony on contested issues for CalWater amended settlement and Park settlement, if filed
July 20, 2007	Reply testimony on Park rate-related conservation issues, if no settlement filed. Contesting parties' testimony on contested issues for CalWater amended settlement, and Park settlement, if settlement filed
July 30-August 3, 2007	Hearings - Commission Court Room, State Office Building, 505 Van Ness Avenue, San Francisco, CA 94102, July 30, 2007, 10:00 a.m., and July 31 - August 3, 2007, 9:30 a.m.
TBD	Briefs
TBD	Mailing of proposed decision, first possible Commission consideration of proposed decision

**Phase 1B: GSWC, San Jose, ROE Adjustment**

September 21, 2007	Opening testimony on rate-related conservation measures or settling parties' testimony on contested issues for GSWC and San Jose; opening testimony on return on equity adjustment for CalWater, Suburban, Park, GSWC and San Jose
October 12, 2007	Reply testimony on rate-related conservation issues or contesting parties' testimony on contested issues for GSWC and San Jose; reply testimony on return on equity adjustment for CalWater, Suburban, Park, GSWC and San Jose
October 22-26, 2007	Hearings - Commission Court Room, State Office Building, 505 Van Ness Avenue, San Francisco, CA 94102, October 22, 2007, 10:00 a.m., and October 23 - 26, 2007, 9:30 a.m.
TBD	Briefs
TBD	Mailing of proposed decision, first possible Commission consideration of proposed decision

A Phase 2 schedule will issue in July or August 2007.

Therefore, **IT IS RULED** that:

1. San Jose Water Company's Application 07-03-019 is consolidated with this Order Instituting Investigation.
2. California Water Service Company and The Utility Reform Network's May 16, 2007 Motion to Modify Schedule is granted as set forth herein.



3. The schedule for this proceeding is revised as set forth herein.

Dated May 29, 2007, at San Francisco, California.

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/s/ JANICE L. GRAU  
Janice L. Grau  
Administrative Law Judge